

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT
OF

NORTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION
MONTGOMERY COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
05/22/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Glenda Nice	07-01-12 to 12-31-15
Superintendent of Schools	Dr. Colleen Moran	01-01-12 to 12-31-15
President of the School Board	Terresa A. Hatke Gerald Hole Richard VanArsdel	01-01-11 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-15



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TO: THE OFFICIALS OF THE NORTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

This report is supplemental to our audit report of the North Montgomery Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

April 20, 2015

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER THE SCHOOL BREAKFAST PROGRAM AND NATIONAL SCHOOL LUNCH PROGRAM

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program and National School Lunch Program

CFDA Numbers: 10.553 and 10.555

Federal Award Years: FY 2012-2013 and FY 2013-2014

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements that have a direct and material effect on the programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation did not have effective controls in place to ensure compliance with Equipment and Real Property Management requirements. Controls were not effective to ensure that capital asset purchases and disposals were properly recorded. A form has been designed to report these transactions, but it is not being used consistently. In addition, no controls were designed to ensure that a physical inventory, which would identify recording errors, was taken as required.

The School Corporation has not designed or implemented procedures to ensure compliance with Procurement and Suspension and Debarment requirements. There were no controls to ensure that bidders were not suspended or debarred or that suspension and debarment certifications were included in the bid specs or the contracts. There were also no controls to ensure that bids were presented to the governing body for review or that contracts were properly awarded by the governing body.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the programs.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program and National School Lunch Program

CFDA Numbers: 10.553 and 10.555

Federal Award Years: FY 2012-2013 and FY 2013-2014

Pass-Through Entity: Indiana Department of Education

The School Corporation purchased three dishwashers (valued at \$20,841 each) and a garbage disposal (valued at \$5,090) during the audit period, but the items were not recorded on the capital asset listing. There were no deletions of cafeteria assets shown on the capital asset listing during the audit period, even though the noted purchases replaced obsolete equipment. There is no evidence that the federal agency was contacted regarding the disposal of the equipment nor was there an estimate of its value at the time of disposal. In addition, a physical inventory of capital assets has not been taken for four years.

7 CFR 3016.32 states in part:

"(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years . . .

(e) Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

We recommended that the School Corporation comply with Equipment and Real Property requirements by ensuring that accurate detailed fixed asset records are maintained and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

North Montgomery Community School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2014-001, Internal Controls Over the School Breakfast Program and National School Lunch Program

Contact Person Responsible for Corrective Action: Karyn Elder, Director of Food Services/Glenda Nice, Corporation Treasurer
Contact Phone Number: 765-359-2112

Description of Corrective Action Plan:

During the bid process the Director of Food Services will confirm with www.sam.gov that the vendors are not in suspension or debarred. The Director of Food Services will keep the record of suspension and debarment verification with the agreement contract. The bid findings will be reviewed and recommended by the Director of Food Services and submitted to the Board of School Trustees for review and approval.

Anticipated Completion Date: August 1, 2015

FINDING 2014-002, Equipment and Real Property Management

Contact Person Responsible for Corrective Action: Karyn Elder, Director of Food Services/Glenda Nice, Corporation Treasurer
Contact Phone Number: 765-359-2112

Description of Corrective Action Plan:

Purchases over \$1,000.00, the description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, the cost of the acquisition, percentage of federal participation in the cost of the property, the location, use and condition of property, and any ultimate disposition data including the date of disposal and sale of the property will be placed as a capital asset listing.

Equipment and real property management will be in place by the physical inventory of property taken every two years by food service personnel and reconciled with the property records of the detailed capital asset listing reported to and maintained by the Administrative Assistant to the Superintendent. The Corporation Treasurer will double check claims as needed for additions of equipment.

Disposition of equipment with a market value of less than \$5,000.00 will be retained, sold or otherwise disposed of with no further obligation. Disposition of equipment no longer needed and of value greater than \$5,000.00 will be retained or sold by calculating market value and proceeds placed into the appropriate fund. All disposition of equipment will be handled in accordance with the above inventory procedures.

Anticipated Completion Date: July 1, 2015

Glenda Nice
(Signature)

Treasurer
(Title)

4/20/2015
(Date)

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BOARD OF SCHOOL TRUSTEES
Michael Shepherd, Vice President
Teresa Hatke Gerald Hole

Jill Davis, Secretary
Karin Kerber Odle

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

PREPAID LUNCH ACCOUNT RECONCILIATIONS

The School Corporation has not established a school lunch clearing account. This account is necessary in order to maintain a control of the prepaid student account balances. Student account balances should be reconciled to the control monthly.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol.183)

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2015, with Glenda Nice, Treasurer; Jim McBee, Business Manager; Dr. Colleen Moran, Superintendent of Schools; Richard VanArsdel, President of the School Board; and Karyn Elder, Food Service Director.